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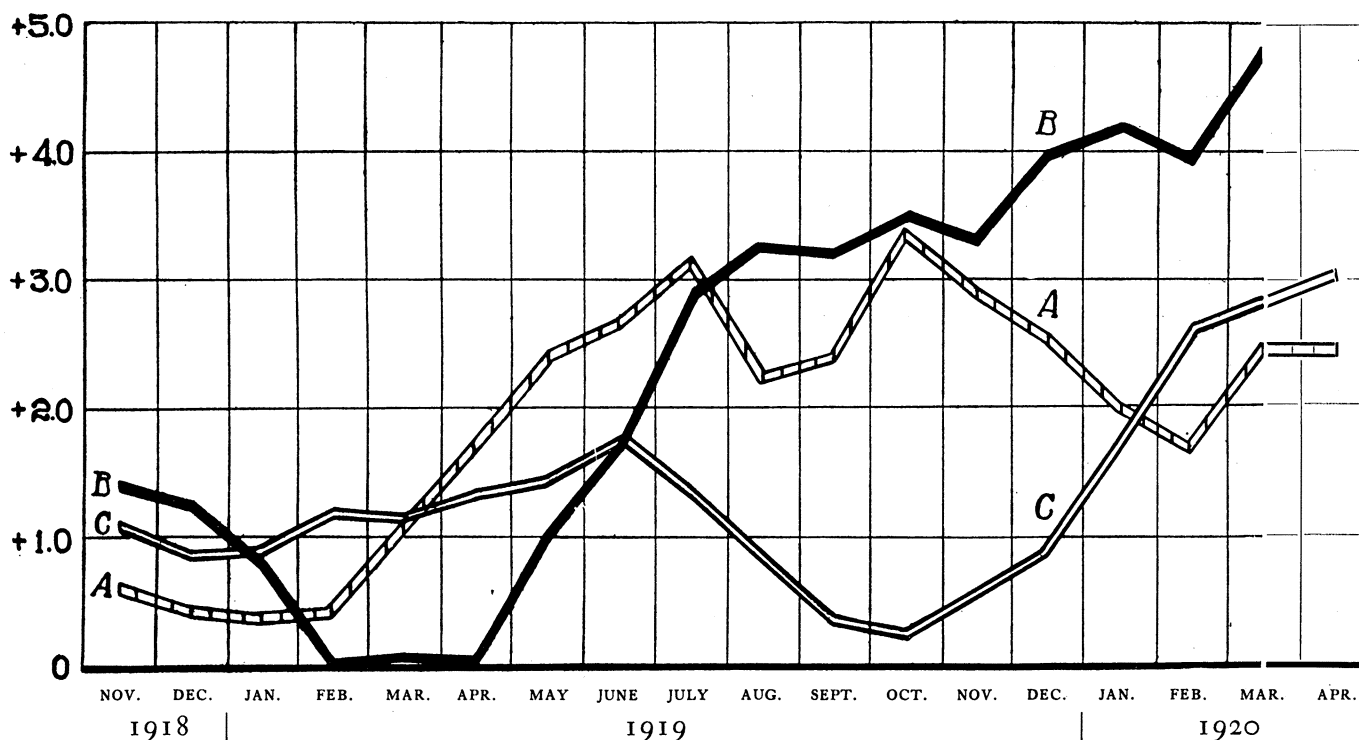
ADVANCE LETTER ON GENERAL BUSINESS CONDITIONS

May 3, 1920

SPECULATION, represented by curve A, was checked in April. Although prices of industrial stocks were slightly above the March figures, the corrected figures for the other series in the group, New York clearings and the volume of sales on the New York Stock Exchange, declined somewhat.

fusing cross currents in business in April all indicate that contraction rather than expansion of commitments is becoming common. There is doubtless need for caution but not for alarm. Liquidation in commodity markets is probable, but the fact that such liquidation is anticipated by many bankers and by not a few business men

INDEX CHART



GROUP A — SPECULATION: New York Bank Clearings, Shares Traded on the New York Stock Exchange, Price of Industrial Stocks.
GROUP B — BUSINESS: Bank Clearings outside New York City, Bradstreet's Price Indices.
GROUP C — BANKING: Rate on 4-6 Months Commercial Paper, Rate on 60-90 Day Commercial Paper.

EXPLANATION: Each one of the three curves is based upon a homogeneous group of statistical series, that is, the members of each group have synchronous cyclical fluctuations after having been corrected for seasonal variation and normal growth, and expressed in comparable units. In other words, the corrected series of each group fluctuate together.

Our interpretation of the fluctuations of the three curves of the current index chart is based upon the relationship which was discovered among similar curves for the period 1903-14. All three curves had wave movements, but the upward swings and the crests of the waves were not reached simultaneously. The major movements of speculation preceded those of business by 4 to 10 months, and the movements of business preceded those of banking by 2 to 8 months. The sequence of movements holding for upward swings and crests also held for downward swings and troughs.

The relationship between the curves which held for the pre-war period appears to have reestablished itself in 1919 so that the movements of the curves constitute a basis for forecasting. Our forecasts, however, are not

based solely upon the index of general business conditions, but they allow for the differences in underlying conditions as revealed by economic analysis. At present, the persistent rise of rates on commercial paper, curve C, and the decline of speculation from the high point of October, curve A, forecast a decline of business activity and commodity prices, curve B, which will take place some time between April and December 1920.

The time and extent of the recession, if it occurs, in business activity and commodity prices depend upon the operation of two powerful opposing forces. On the one hand, the shortage of commodities and buildings, abnormal foreign demand for goods and credit, the railroad tie-up, and active retail trade in the United States make for immediate business activity and higher prices. On the other hand, inflated currency and credit, depleted reserves and increasing interest rates, all indicative of capital strain, make for a slackening of business activity and lower prices. At present the money market appears to be the crux of the situation, but we recognize the possibility of the entrance of other factors which may alter the course of developments.

Banking conditions, represented by curve C, became more difficult in April. Reports from all sections of the country speak of the increasing stringency of the money market.

Some observers of the business situation are impressed by the growing caution of dealers, slower collections, slackening retail trade in some lines of merchandise in April, and the recession of prices in certain commodities; others speak of slow deliveries of goods, the shortage of basic commodities, and further price increases.

The great stringency in money markets, the check to the upward movement in security prices, and the con-

as well is, of itself, an encouraging element in the situation. Another encouraging element is the halt in the decline of the reserve ratio and excess reserves of the federal reserve banks, a decline that, until March, had been in progress since last June.¹

SPECULATION

In April there was a check in the upward movement of our forecaster, curve A; this check is the natural re-

¹ On April 30 the reserve ratio was 42.4 per cent and excess reserves were 206 millions, a decline from the previous week resulting from an increase of 6.3 millions in notes and a decrease of 12.8 millions in cash.

sult of the strained money market evidenced by curve C. The flattening out of curve A was the result of nearly parallel movements of all three series of the speculative group.

New York clearings decreased from \$22,330,000,000 in March to \$21,800,000,000 in April. This is a fall of 2 per cent whereas April clearings usually equal those in March.

The average price of twenty industrial stocks was \$100.80 last month compared with \$99.60 in the month previous. In March the price increased from \$91.68 on the second of the month to \$104.17 on the twenty-second, when the high point on the recent movement was reached. In April, on the contrary, the price declined from \$105.65 on the eighth to a low point of \$93.16 on the twenty-ninth, compared with \$89.98, the low point of February.

The average price of twenty rails was \$74.40 in April compared with \$76.80 in March. The range during March was from \$74.25 on the third of the month to \$78.83 on the fifteenth; in April the range was from \$76.53 on the seventh to \$71.64 on the twenty-first.

The number of shares sold on the New York Stock Exchange in April was 28,620,000 compared with 29,010,000 in March. The volume of sales in March was the highest since November.

Speculation in March showed the depressing effects of tight money, of the Japanese crisis, and of the difficult general economic situation; it did not respond greatly to six or seven per cent money which was available on several days.

Very high money rates and the prospect of liquidation in commodity markets are forces which are operating at present against an upward movement in security markets.

BANKING

The upward movement of curve C, representing rates on commercial paper, which began in November and was maintained at a very rapid pace in January and February, continued in March and April, but at some reduction from the previous pace.

The average rate in New York on sixty-to-ninety day commercial paper in April was 6.81 per cent compared with 6.68 in March; the average rate on four-to-six months paper was 6.97 per cent compared with 6.88 in March. Usually there is a slight seasonal decline in April compared with March. A marked difference between this year and pre-war years is that instead of a seasonal decline in January and February there was a sharp increase in rates.

The rates of discount of the federal reserve banks continue to be lower than the market rates on commercial paper or on loans secured by collateral. The chart on page 4 of this letter shows the fluctuations in the rates on four typical classes of loans in the New York market compared with the minimum rate of discount of the New York Federal Reserve Bank. The chart shows that since 1917 there has been a financial inducement for member banks to become "normal" borrowers from their federal reserve bank. The amendment to the

Federal Reserve Act providing for graduated discount rates, the rate charged each bank depending upon the accommodation extended, is expected to result in a contraction of borrowings of some member banks. The effect of this provision, which has already been put into effect by the Federal Reserve Bank of Kansas City, will be watched with interest. Discount rates for the New York Federal Reserve Bank are given in the following table:

DISCOUNT RATES (high and low) FOR MEMBER BANKS AT THE NEW YORK FEDERAL RESERVE BANK FOR PAPER SECURED BY ELIGIBLE BILLS OR UNITED STATES GOVERNMENT OBLIGATIONS, OR FOR REDISCOUNT OF TRADE ACCEPTANCES AND BANKERS' ACCEPTANCES: 1915-1920.

	Maturities of 15 days or less		Maturities of 16-90 days	
	High	Low	High	Low
Nov. 16, 1914 to Dec. 31, 1915 ..	5½	3	6	3½
Jan. 1, 1916 to Dec. 31, 1916 ..	4	3	4	3½
Jan. 1, 1917 to Dec. 31, 1917 ..	3½	3	4½	3½
Jan. 1, 1918 to Dec. 31, 1918 ..	4	3½	4¾	4
Jan. 1, 1919 to Nov. 3, 1919 ..	4	4	4¾	4¼
Nov. 5, 1919 to Dec. 11, 1919 ..	4¾	4¼	4¾	4½
Dec. 12, 1919 to Dec. 30, 1919 ..	4¾	4½	4¾	4½
Dec. 31, 1919 to Jan. 20, 1920 ..	4¾	4¾	4¾	4¾
Jan. 21, 1920 to Feb. 24, 1920 ..	6	4¾	6	4¾
Feb. 25, 1920 to date, Apr. 22, 1920	6	5	6	5

NOTE: Rediscount rates at the New York Federal Reserve Bank are 6 per cent for commercial paper, all maturities, and 5¼ per cent for loans and advances secured by government obligations, except certificates of indebtedness. The same rates prevail at all other reserve banks.

Rates on outstanding certificates of indebtedness bearing 5 per cent are being discounted at that rate at all the reserve banks. Certificates bearing 5¼ per cent are being discounted at 5¼ per cent at Philadelphia, Richmond, Atlanta, Chicago and Minneapolis and at 5 per cent at the other banks.

BUSINESS

The data for curve B are not available at this writing. The indications are, however, that bank clearings outside New York City in April will show a decrease from March. There is evidence that the commodity price indices for April will be somewhat higher than those for March.

Clearings for forty-nine leading cities (not including New York) for the four weeks ending April 22 were 96 per cent of the figures for the four weeks ending March 25. Usually weekly clearings in April equal those in March.

The movements in commodity markets have been varied. On the one hand, transportation difficulties in April resulted in shortage of commodities in several markets, and prices of certain commodities have increased during the month; on the other hand, buying in the jewelry industry has slumped; there have been marked decreases in the prices of various Japanese goods, and both wholesale and retail dealers are becoming cautious. Dealers with conservative stocks realize that if their competitors are carrying large stocks which cannot be liquidated except at price recessions, those price recessions will have to be met, and moderately stocked as well as over-extended merchants will lose. Dealers also realize that a shortage of commodities

when demand is very active may be converted into a surplus if demand slackens greatly. The following quotations from publications of recent date indicate the sentiment at the end of April.

The Federal Reserve Board stated in its summary of business conditions for April that reports from federal reserve agents throughout the country showed a marked tendency of prices to resume their upward movement.

But the Board noted "anxiety concerning the overstrained situation resulting from excessively high prices and wages," which it believed forecasts a slowing down in the skyrocketing of prices.

"While the agricultural outlook is distinctly less satisfactory than it was a month ago," the summary said, "and while the month of April has been a period of serious labor disturbance, especially in the transportation field, the activity of business has continued high, and demand for products strong with prices tending upward rather than downward. Industries are not, as a whole, booked as far ahead, relatively speaking, as in the past, although in some lines the volume of unfilled orders is very large."

The Federal Reserve Bank of Chicago reported on April 25 that:

... There has been a gradual tightening of the money market; rates are firming up and banks throughout the Seventh Federal Reserve District are borrowing freely at the Federal Reserve Bank, reflecting the abnormal demand for credit in all lines of business. ...

Nearly two months have elapsed since the great demand in connection with farm land transfers became apparent. The liquidation which usually follows such activity has not taken place to the extent expected. ...

Practically every bank replying to a general inquiry, reports that there has been a greatly increased use of credit by farmers as well as manufacturers. This situation is particularly aggravated in some of the agricultural districts where farmers have not been able to market their grain because of bad roads and inadequate cars and where elevators are filled to capacity.

One of the encouraging developments in connection with the loan situation is the increasing disposition on the part of leading bankers of the district to carefully sift loan applications. Customers are being asked to explain specifically for what purpose they are seeking credit extensions, with a view of determining whether the amounts can be paid down. This discrimination, if followed throughout the Middle West, should result in a considerable contraction in the volume of credit without injuring those engaged in legitimate business or impairing the ability to obtain credit where it is essential. ...

Shortage of labor and raw materials, vital factors in the industrial situation, show no signs of an early improvement. ...

There is a distinct lessening in the buying of jewelry in the cities by the working classes, compared with a month ago.

The Federal Reserve Bank of St. Louis under date of April 27 states that:

... Reports from representative factors in virtually all lines of industry in this district indicate there has been no slowing down in the recent brisk pace, maintained by all business. Further, barring certain disabilities of a transitory sort, signs generally point to continued activity for some time to come. As contrasted with like period of 1919, the past month discloses a goodly gain in the volume of sales of both wholesalers and retailers, while in but few instances is there report of any falling off from totals of the preceding month. ...

Dry goods, hardware, woodenware, wearing apparel, iron and steel products, together with other varieties of merchandise, are reported steady to higher, with gains of a very decided character on some articles. ...

The raw material market holds it own well, there being no declining tendency observable thus far. Fuel is higher, especially coke, from which Government regulation was recently lifted, and which, along with coal, is affected by the increased sale to miners in bituminous fields. ...

Certain adverse elements in the situation have taken more definite shape in the past few weeks, but thus far have not been sufficiently marked to act as a real damper on business activity. ...

Collections for the most part are reported good, though backward in tobacco growing sections, where last year's crop has not been entirely marketed. In certain flooded districts banks and merchants complain of delayed settlements.

Reports from retailers in this district are somewhat mixed, both as to present business and prospects. Generally trade in March and early April shows goodly increases over the corresponding period a year ago, but in many instances there were decreases in total volume of sales under the February showings. Unseasonable weather has been the chief factor in slowing down purchases. Articles for spring wear have not moved as well as they should have, on account of the unseasonably cold weather. Prices are holding firm, with some advances and virtually no declines. There is some talk of a reduction in prices of women's clothing, but as yet no evidence of this has appeared in retail establishments hereabouts.

The Federal Reserve Bank of Minneapolis reports that in April:

... The credit situation has not improved during the month. ...

Member banks are quite generally adopting the policy of eliminating loans not necessary to carry on business or agricultural operations, and are advising their customers to adopt and follow a prudent and conservative policy. There is no immediate outlook for a lessened demand for money. ...

The key to the credit situation at the present time is the inability of the railroads to move the traffic offered. ... The movement of grain, live stock, and farm products to market has been interfered with and the usual liquidation following the crop movement has been so long deferred, there is a prospect that it may not be entirely completed until after the 1920 crop begins to move.

In the meantime, the demands of business have been exceptionally heavy. High prices have increased the volume of all business financing and added materially to the burden upon the banks. ...

There is considerable evidence of careful buying on the part of the retailer, and in some cases wholesalers are advising their customers to purchase only such merchandise as they have immediate use for. The retail trade is still brisk.

The New York *Journal of Commerce* reported on April 30 that:

Dry goods jobbers are no longer trying to dissemble their feelings toward future prices. They want to see them lower even in cases where they have goods on order and undelivered. ...

The jobbers have been able to do a good business until very recently and were paying little or no attention to the course of the financial markets. It is now stated that Western money markets are passing through a stringency not unlike that seen elsewhere a short time ago and it has made merchandise men more cautious. Salesmen who have come recently from the South and West say trade is not as good as it was last year and has fallen off greatly since last fall.

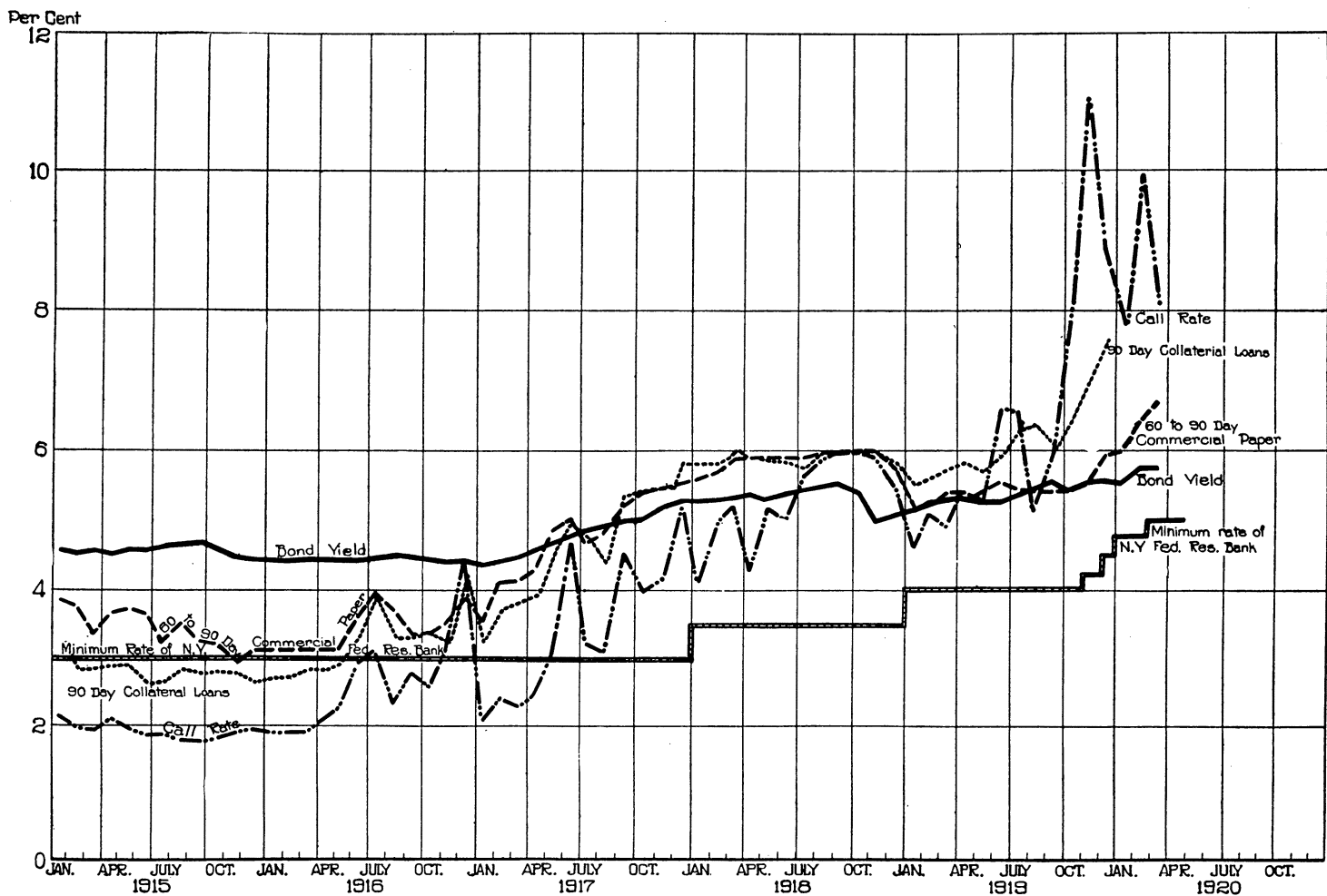
Importers of burlap with close Calcutta connections are watching with interest the efforts of some speculative holders to get away from the merchandise for which they are committed, and which is either at the dock, or nearby afloat, in uncomfortable quantities.

A further decline in raw silk reported during the day has brought the values down to about where they were at the beginning of September in 1919.

No retailer whose opinion is worth while is now of the belief that price resistance on the part of the consumer can be ignored. The time has passed when all consumers will pay any old price for any old kind of goods.

Bradstreet's for April 24 said:

Trade and industry are rather more irregular, and while there are signs of improvement in the industrial field owing to the gradual burning out of the railway strike, the embers of this trouble are still a cause of arrested movement and production. In retail trade, bad weather, excessive rains and the cold, late spring are credited with the chief responsibility for the little better than fair reports received. In wholesale trade, in which, as in retail trade, manufacture and collections, the pace is slower; conservatism bred of high prices, the closer scrutiny of credits, and the more evident firmness of money in all markets, are all causes assigned for the tapering off of buying for the more distant future. In no line are activities so marked as in January, in March or in earlier April, while as compared with a year ago, when the foreshadowings of the great expansion of 1919 were becoming visible, neither retail trade nor collections are so favorably regarded, though manufacture and industry, of course, have greatly



improved. Breaks in the speculative markets for securities and commodities, with intimations that the great speculative fever in Japan has been arrested, have been outside elements exerting a sentimental effect, at least upon new ventures for the future. . . . From an increasing number of centers come reports that high prices of material and labor, or absolute scarcity of the former, are slowing down the building movement from earlier expectations.

Dun's Review for April 24 said:

The week has developed significant tendencies in business and in speculative channels, with abrupt price reaction in securities and in some commodities, and the spirit of conservatism and caution, prompted by prospective economic readjustments, has become more general. Recent financial and commercial events in the Far East, moreover, have had some influence here, causing liquidation and unsettlement in silk markets, and domestic monetary considerations, with continuance of the movement toward credit contraction, are a factor of increasing potency in future operations. . . . The fact is not obscured that the former buoyancy of the general price situation is now lacking, and that consumers' resistance to high prices, at first apparent in isolated instances, is spreading. Manifestations of protest against prevailing prices have been most conspicuous in the clothing trades, but are not wholly confined to that quarter, and more is being heard of the exercise of greater discrimination in purchasing, and of

lessening of extravagance in personal expenditures. With such phases present, many merchants are proceeding carefully in providing for other than current requirements, and buying for Fall is not of the same magnitude as in some previous seasons. Whether this marks more than a temporary change in conditions, remains to be determined; but the growing opposition to extreme prices is unmistakable, and certain retail interests have announced their intention of making reductions on many staple commodities.

Thus far, no large accumulation of merchandise has been reported; but imports continue sizable, and domestic production, while still below normal, is thought to be gaining in comparison with actual consumption. Bank pressure is being manifested in several directions in the textile markets, notably in the checking of speculative tendencies, and the influence on conditions here of the collapse of raw silk prices has not been inconsiderable. The process of liquidation in the silk trade in New York, however, has been mainly among smaller concerns that entered the business during the war period.

The recently developed feeling of conservatism in hide, leather and shoe circles has become more sharply defined, with an increasing belief that prices are working toward a lower basis than has been witnessed since pre-war times. . . . That leather prices have been gradually softening of late, is significant of the changed market sentiment; and the continued dulness of hide business finds reflection in a weaker undertone in prices. On forced sales of raw material, it is probable that sharp price declines would have to be accepted.